

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Charter Township of Union</b>	County <b>Isabella</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>4/19/05</b>	Date Accountant Report Submitted to State: <b>June 23, 2005</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) <b>Page, Olson &amp; Company PC, CPA's</b>			
Street Address <b>2865 S. Lincoln Rd.</b>	City <b>Mount Pleasant</b>	State <b>MI</b>	ZIP <b>48858</b>
Accountant Signature 		Date <b>June 23, 2005</b>	

**CHARTER TOWNSHIP OF UNION**

**ISABELLA COUNTY**

**STATE OF MICHIGAN**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED DECEMBER 31, 2004**

# CHARTER TOWNSHIP OF UNION

## ANNUAL FINANCIAL REPORT

### YEAR ENDED DECEMBER 31, 2004

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**CHARTER TOWNSHIP OF UNION  
ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2004**

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# **INTRODUCTORY SECTION**

**CHARTER TOWNSHIP OF UNION  
TOWNSHIP OFFICIALS  
YEAR ENDED DECEMBER 31, 2004**

**SUPERVISOR**

James Collin

**TRUSTEES**

Russell Alwood

Jim Horton, II

Marian McDonald

John Verwey

**TREASURER**

Deborah Supka

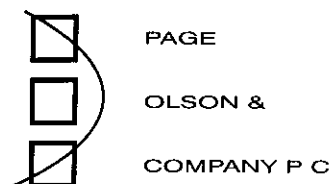
**CLERK**

Susan Gilpin

**SUPERINTENDENT**

Gwen Plowman

# **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

April 19, 2005

Township Officials  
Charter Township of Union  
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of Union as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of Union, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of December 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 19, 2005, on our consideration of the Charter Township of Union's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing standards and should be read in conjunction with this report in considering the results of our audit.



Township Officials  
Charter Township of Union  
Isabella County, Michigan

The management's discussion and analysis and budgetary comparison information on pages 9 through 16 and 49 through 52, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Union's basic financial statements. The introductory section, required supplemental, other supplemental information and compliance section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information relative to December 31, 2004 and for the year then ended has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Page, Olson & Company*

# **CHARTER TOWNSHIP OF UNION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Charter Township of Union, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Charter Township of Union for the fiscal year ended December 31, 2004. All amounts, unless otherwise indicated, are presented in whole dollars.

### **Financial Highlights**

The assets of the Township Primary Government exceeded its liabilities at the close of the most recent fiscal year by \$19,247,204 (net assets). Of this amount, \$ 8,640,330 (unrestricted net assets) may be used to meet the government's ongoing obligations to the citizens and creditors.

The primary government's total net assets increased by \$1,211,072. This increase is primarily due to increased Construction Code permits, budgeted capital improvements that were not started, and increased Water and Sewer revenues based on population growth within the Township.

As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2,216,723, an increase of \$397,640 in comparison with the prior year. Again, the majority of the increase is due to increased Construction Code permits and budgeted capital projects that were not initiated during the year. Approximately \$2,196,684 of this total amount is available for spending at the government's discretion (unreserved-undesignated fund balance).

At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,473,671 or approximately \$805,842 greater than total general fund expenditures.

The Township's total debt decreased by \$568,821 (4.6 percent) during the current fiscal year. This decrease is partially a result of bond refinancing to pay off existing debt and not entering into any other new debt in the current year.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction of the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

# CHARTER TOWNSHIP OF UNION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government, public safety, public works, community and economic development, recreation & culture, and debt service. The business-type activities of the Township include the Water and Sewer operations.

The government wide financial statements include not only the Township itself (known as the primary government), but also the legally separate East Downtown Development Authority and the West Downtown Development Authority for which the Township is financially accountable. Financial information presented for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 19 and 20 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

## **CHARTER TOWNSHIP OF UNION MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Township maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund and the two special revenue funds, the Fire fund and Construction Code Enforcement fund, all of which are considered to be major funds.

The Township adopts an annual appropriated budget for its general fund and all special revenue fund types. Budgetary comparison statements have been provided in the supplemental section of the report to demonstrate the extent of compliance with these budgets.

The basic governmental fund financial statements can be found on pages 21 through 24 of this report.

***Proprietary funds.*** The Township maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its Sewer and Water operation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer operations, all of which are considered to be major funds of the Township.

The basic proprietary fund financial statements can be found on pages 25 through 27 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Township's own programs. Currently the Township has two funds that are agency type funds.

The basic fiduciary fund financial statements can be found on page 28 of this report.

***Notes to the financial statements.*** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 31 of this report.

***Other information.*** In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information in connection with component units. Combining and individual fund statements and schedules can be found on pages 58 through 65 of this report. Additionally, compliance information is also included as described in the table of contents.

# CHARTER TOWNSHIP OF UNION MANAGEMENT'S DISCUSSION AND ANALYSIS

## Government-wide Financial Analysis

The following summaries provide a perspective of the financial information of the Township as a whole:

Charter Township of Union's Net Assets			
	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 2,312,342	\$ 6,737,289	\$ 9,049,631
Capital assets	1,088,399	21,124,018	22,212,417
Total assets	3,400,741	27,861,307	31,262,048
Long-term liabilities outstanding	94,322	11,585,783	11,680,105
Other liabilities	110,071	224,668	334,739
Total liabilities	204,393	11,810,451	12,014,844
Net assets:			
Invested in capital assets, net of related debt	994,077	9,538,235	10,532,312
Restricted	-	74,562	74,562
Unrestricted	2,202,271	6,438,059	8,640,330
Total net assets	\$ 3,196,348	\$ 16,050,856	\$ 19,247,204

Charter Township of Union's Changes in Net Assets			
	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for Services	\$ 216,181	\$ 3,204,150	\$ 3,420,331
Operating grants and contributions	-	-	-
Capital Grants and contributions	-	-	-
General Revenues:			
Property Taxes	707,048	-	707,048
Other	571,487	128,206	699,693
Total Revenues	1,494,716	3,332,356	4,827,072
Expenses:			
General Government	417,690	-	417,690
Public Safety	480,981	-	480,981
Public Works	188,675	-	188,675
Community and Economic Development	20,041	-	20,041
Recreation and Culture	74,388	-	74,388
Interest and Fees on Long-Term Debt	5,688	-	5,688
Sewer	-	1,801,584	1,801,584
Water	-	788,735	788,735
Total Expenses	1,187,463	2,590,319	3,777,782
Increase in net assets before transfers	307,253	742,037	1,049,290
Transfers	161,782	-	161,782
Increase in net assets	469,035	742,037	1,211,072
Net Assets - November 30	2,727,313	15,308,819	18,036,132
Net Assets - December 31	\$ 3,196,348	\$ 16,050,856	\$ 19,085,422

## CHARTER TOWNSHIP OF UNION MANAGEMENT'S DISCUSSION AND ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Charter Township of Union, assets exceeded liabilities by \$19,247,204 at the close of the most recent fiscal year.

The largest portion of the Township's net assets (55 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Township's net assets (0.39 percent) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (\$ 8,640,330) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net assets for the government as a whole. The Township's discretely presented component units also have available net assets of \$176,269 when combined.

The government's net assets increased by \$1,211,072 during the current fiscal year. This increase is primarily due to increased Construction Code permits, budgeted capital improvements that were not started, and increased Water and Sewer revenues based on population growth within the Township.

**Governmental activities.** Governmental activities increased the Township's net assets by \$469,035. This increase is due to budgeted projects not commencing during the year as planned and an increase in taxable values due to general growth in the Township.

**Business-type activities.** Business-type activities increased the Township's net assets by \$742,037. Water and Sewer usage increased due to new construction in the Township, therefore increasing revenues.

### **Financial Analysis of the Government's Funds**

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

## **CHARTER TOWNSHIP OF UNION MANAGEMENT'S DISCUSSION AND ANALYSIS**

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2,216,723, an increase of \$397,640 in comparison with the prior year. The majority of the increase is due to increased Construction Code permits and budgeted capital projects that were not initiated during the year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to fund prepaid expenditures.

The General fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,473,671, while total fund balance reached \$1,493,277. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance of \$1,473,571 exceeds total general fund expenditures (\$667,829) by \$805,842, while total fund balance exceeds that same amount by \$825,448.

The fund balance of the Township's general fund increased by \$198,333 during the current fiscal year. Anticipated road projects were not completed in during the year, therefore decreasing expected expenditures.

The Fire fund ended with a \$75,281 increase in fund balance resulting in an ending fund balance of \$531,528 for the year. This is a result of increased property tax revenue due to growth within the Township.

The Construction Code Enforcement fund balance increased by \$124,026 during the fiscal year. The Construction Code permit revenues increased substantially during the year, again as a result of general growth in the Township.

***Proprietary funds.*** The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer and Water funds at the end of the year amounted to \$3,737,620 and \$2,700,439, respectively. The Sewer fund experienced an increase in net assets of \$381,929 while the Water fund similarly experienced a net increase in net assets of \$360,108. Factors concerning the finances of these funds have already been addressed in the discussion of the Township's business-type activities.

### **General Fund Budgetary Highlights**

The Township attempted to amend the budget, as it was apparent that original assumptions may not materialize as anticipated. Difference between the original budget and the final amended budget can be briefly summarized as follows:

The budgeted amounts for property taxes and construction code permit revenues increase based on additional growth. Budgeted General Fund expenditures were increased due to part-time labor needed in the Clerk's office and for the Township hall parking lot expansion.

# CHARTER TOWNSHIP OF UNION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Capital Asset and Debt Administration

**Capital Assets.** The Township's investment in capital assets for its governmental and business type activities as of December 31, 2004, amounts to \$22,212,417 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, sewer and water systems, and construction in progress. The total increase in the Township's investment in capital assets for the current fiscal year was 1 percent (a 4 percent decrease for governmental activities and a 1 percent increase for business-type activities).

#### Charter Township of Union's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 160,650	\$ 160,650	\$ 275,780	\$ 275,780	\$ 436,430	\$ 436,430
Construction in Progress	-	-	408,890	151,936	408,890	151,936
Land Improvements	121,205	39,000	10,893	12,000	132,098	51,000
Buildings and Improvements	502,042	514,943	107,043	113,323	609,085	628,266
Equipment	139,783	154,910	281,564	298,072	421,347	452,982
Vehicles	145,312	156,489	65,215	84,420	210,527	240,909
Office Equipment	19,407	25,334	-	-	19,407	25,334
Infrastructure	-	-	19,974,633	19,964,215	19,974,633	19,964,215
Total	<u>\$ 1,088,399</u>	<u>\$ 1,051,326</u>	<u>\$ 21,124,018</u>	<u>\$ 20,899,746</u>	<u>\$ 22,212,417</u>	<u>\$ 21,951,072</u>

Additional information on the Township's capital assets can be found in Note 6 of this report.

**Long-term debt.** At the end of the current fiscal year, the Township had total bonded debt outstanding of \$11,670,000. This amount represents bonds secured solely by specified revenue sources.

#### Charter Township of Union's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue bonds	\$ -	\$ -	\$ 11,670,000	\$ 12,230,000	\$ 11,670,000	\$ 12,230,000
Capital Lease	94,322	114,776	-	-	94,322	114,776
Total	<u>\$ 94,322</u>	<u>\$ 114,776</u>	<u>\$ 11,670,000</u>	<u>\$ 12,230,000</u>	<u>\$ 11,764,322</u>	<u>\$ 12,344,776</u>

The Township's total debt decreased by \$563,821 during the fiscal year. This decrease is partially the result of bond refinancing to pay off existing debt and not entering into any new debt in the current year.

State statutes limit the amount of general obligation debt a governmental entity may issue up to 10 percent of its total assessed value of all real and personal property subject to taxation in the Township. As of December 31, 2004, the Township's direct and indirect debt of \$1,446,190 was below the legal limit of \$22,248,076.

Additional information on the Township's long-term debt can be found in Note 7 of this report.



# **CHARTER TOWNSHIP OF UNION MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **Economic Factors and Next Year's Budgets and Rates.**

The majority of the General Fund's revenue is from property taxes and State shared revenue. While the property tax revenue has been increasing, it has not kept pace with the decreases in State shared revenue. The balance of the Township's funds should remain relatively stable if the current growth trend continues.

## **Requests for Information.**

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Township Superintendent's office.

# **BASIC FINANCIAL STATEMENTS**

**CHARTER TOWNSHIP OF UNION  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2004**

**Statement I**

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash & Cash Equivalents	\$ 1,695,166	\$ 4,142,095	\$ 5,837,261	\$ 818,021
Receivables	515,373	1,856,310	2,371,683	1,357,092
Internal Balances	81,764	-	81,764	-
Inventories	-	7,545	7,545	-
Prepaid Expenditures	20,039	63,764	83,803	86,827
Total Current Assets	2,312,342	6,069,714	8,382,056	2,261,940
<b>Noncurrent Assets</b>				
Restricted Cash and Cash Equivalents	-	74,562	74,562	-
Deferred Charges	-	593,013	593,013	78,994
Capital Assets - Net of Depreciation	1,088,399	21,124,018	22,212,417	-
Total Noncurrent Assets	1,088,399	21,791,593	22,879,992	78,994
<b>TOTAL ASSETS</b>	<b>3,400,741</b>	<b>27,861,307</b>	<b>31,262,048</b>	<b>2,340,934</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	5,829	22,165	27,994	262
Retainage Payable	-	12,102	12,102	4,089
Vested Benefits - Current	4,962	15,496	20,458	-
Internal Balances	-	-	-	520
Deferred Revenue	93,231	-	93,231	389,075
Accrued Interest Payable	4,308	152,687	156,995	(15,704)
Long-Term Debt Due within One Year	21,635	640,000	661,635	378,583
Total Current Liabilities	129,965	842,450	972,415	756,825
<b>Noncurrent Liabilities</b>				
Vested Benefits - Long-term	1,741	22,218	23,959	-
Long-Term Debt Due in more than One Year	72,687	10,945,783	11,018,470	1,407,840
Total Noncurrent Liabilities	74,428	10,968,001	11,042,429	1,407,840
<b>TOTAL LIABILITIES</b>	<b>204,393</b>	<b>11,810,451</b>	<b>12,014,844</b>	<b>2,164,665</b>
<b>NET ASSETS</b>				
Invested in Capital assets, net of related debt	994,077	9,538,235	10,532,312	-
Restricted for:				
Debt Service	-	74,562	74,562	261,176
Unrestricted Net Assets	2,202,271	6,438,059	8,640,330	(84,907)
<b>TOTAL NET ASSETS</b>	<b>\$ 3,196,348</b>	<b>\$ 16,050,856</b>	<b>\$ 19,247,204</b>	<b>\$ 176,269</b>

The notes to the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF UNION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004

Statement II

Functions/Programs:	Net (Expense) Revenue and Changes in Net Assets					
	Program Revenues			Primary Government		Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
					Total	Total
<b>Primary Government:</b>						
Governmental Activities						
General Government	\$ 417,690	\$ 44,368	\$ -	\$ -	\$ (373,322)	\$ (373,322)
Public Safety	480,981	161,656	-	-	(319,325)	(319,325)
Public Works	188,675	7,407	-	-	(181,268)	(181,268)
Community and Economic Development	20,041	-	-	-	(20,041)	(20,041)
Recreation and Culture	74,388	2,750	-	-	(71,638)	(71,638)
Interest and Fees on Long-Term Debt	5,688	-	-	-	(5,688)	(5,688)
Total Governmental Activities	1,187,463	216,181	-	-	(971,282)	(971,282)
Business-type Activities						
Sewer	1,801,584	2,126,995	-	-	325,411	325,411
Water	788,735	1,077,155	-	-	288,420	288,420
Total Business-type Activities	2,590,319	3,204,150	-	-	613,831	613,831
<b>Component Units</b>						
East Downtown Development Authority	187,865	-	-	-	-	(187,865)
West Downtown Development Authority	33,620	39,215	-	-	-	5,595
Total Component Units	221,485	39,215	-	-	-	(182,270)
<b>General Revenues:</b>						
Property Taxes					707,048	707,048
Revenue Sharing					551,499	551,499
Interest Earnings					9,790	116,825
Gain on Sale of Fixed Assets not restricted to specific programs					-	5,000
Miscellaneous					10,198	6,381
Total General Revenues					1,278,535	1,406,741
Transfers					161,782	161,782
Total General Revenue and Transfers					1,440,317	1,568,523
Changes in Net Assets					489,035	742,037
Net Assets - January 1					2,727,313	15,308,819
Net Assets - December 31					\$ 3,196,348	\$ 16,050,856
					\$ 19,247,204	\$ 176,269

The notes to the financial statements are an integral part of this statement.

**CHARTER TOWNSHIP OF UNION  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
DECEMBER 31, 2004**

**STATEMENT III**

	<u>General</u>	<u>Fire</u>	<u>Construction Code Enforcement</u>	<u>Total Governmental</u>
<b>ASSETS</b>				
Cash & Cash Equivalents	\$ 1,059,304	\$ 440,516	\$ 195,346	\$ 1,695,166
Taxes Receivable - net of allowance for uncollectible taxes	149,531	175,826	-	325,357
Accounts Receivable	190,002	-	-	190,002
Interest Receivable	-	14	-	14
Due from Other Funds	81,631	-	133	81,764
Prepaid Expenditures	<u>19,606</u>	<u>-</u>	<u>433</u>	<u>20,039</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,500,074</u></b>	<b><u>\$ 616,356</u></b>	<b><u>\$ 195,912</u></b>	<b><u>\$ 2,312,342</u></b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 3,964	\$ -	\$ 1,865	\$ 5,829
Accrued Liabilities	2,833	-	2,129	4,962
Deferred Revenue	<u>-</u>	<u>84,828</u>	<u>-</u>	<u>84,828</u>
<b>TOTAL LIABILITIES</b>	<b>6,797</b>	<b>84,828</b>	<b>3,994</b>	<b>95,619</b>
<b>FUND BALANCE (Deficit)</b>				
Reserved for:				
Prepaid Expenditures	19,606	-	433	20,039
Unreserved, reported in:				
General Fund	1,473,671	-	-	1,473,671
Special Revenue Funds	-	531,528	-	531,528
Capital Projects Funds	<u>-</u>	<u>-</u>	<u>191,485</u>	<u>191,485</u>
<b>TOTAL FUND BALANCE</b>	<b><u>1,493,277</u></b>	<b><u>531,528</u></b>	<b><u>191,918</u></b>	<b><u>2,216,723</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 1,500,074</u></b>	<b><u>\$ 616,356</u></b>	<b><u>\$ 195,912</u></b>	<b><u>\$ 2,312,342</u></b>

The notes to the financial statements are an integral part of this statement.

**CHARTER TOWNSHIP OF UNION  
GOVERNMENTAL FUNDS  
RECONCILIATION OF FUND BALANCE  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2004**

**Statement IV**

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balance of Governmental Funds (Statement III)	\$ 2,216,723
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,088,399
Long-term Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(100,371)
Charges deferred to future periods in the governmental activities are not reported in the funds.	<u>(8,403)</u>
Net Assets of Governmental Activities (Statement I)	<u>\$ 3,196,348</u>

**CHARTER TOWNSHIP OF UNION  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUE, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**STATEMENT V**

	General	Fire	Construction Code Enforcement	Total Governmental
<b>REVENUE</b>				
Taxes	\$ 311,432	\$ 402,385	\$ -	\$ 713,817
Licenses and Permits	41,991	-	161,656	203,647
Intergovernmental Revenue	557,728	-	-	557,728
Charges for Services	5,127	-	-	5,127
Interest	8,011	1,779	-	9,790
Refunds and Rebates	2,076	-	-	2,076
Other Revenue	1,797	96	-	1,893
<b>TOTAL REVENUE</b>	<b>928,162</b>	<b>404,260</b>	<b>161,656</b>	<b>1,494,078</b>
<b>EXPENDITURES</b>				
Legislative	47,594	-	-	47,594
General Government	364,097	-	-	364,097
Public Safety	8,331	381,902	79,588	469,821
Public Works	30,567	-	-	30,567
Planning and Zoning	-	-	20,042	20,042
Recreation & Culture	59,097	-	-	59,097
Debt Service	-	27,077	-	27,077
Capital Improvements	158,108	-	-	158,108
Other	35	-	-	35
<b>TOTAL EXPENDITURES</b>	<b>667,829</b>	<b>408,979</b>	<b>99,630</b>	<b>1,176,438</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>260,333</b>	<b>(4,719)</b>	<b>62,026</b>	<b>317,640</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	(62,000)	-	-	(62,000)
Transfers In	-	80,000	62,000	142,000
<b>NET CHANGE IN FUND BALANCE</b>	<b>198,333</b>	<b>75,281</b>	<b>124,026</b>	<b>397,640</b>
<b>Fund Balance - Beginning</b>	<b>1,294,944</b>	<b>456,247</b>	<b>67,892</b>	<b>1,819,083</b>
<b>Fund Balance - Ending</b>	<b>\$ 1,493,277</b>	<b>\$ 531,528</b>	<b>\$ 191,918</b>	<b>\$ 2,216,723</b>

The notes to the financial statements are an integral part of this statement.

**CHARTER TOWNSHIP OF UNION  
GOVERNMENTAL FUNDS  
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITY  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Statement VI**

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds (Statement V)	\$	397,640
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$94,257) exceeded depreciation (\$53,095) in the current period.	41,162
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Repayment of capital lease principal is an expenditure in the governmental funds, but not in the statement of activities where it reduces long-term debt.	20,455
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Interest payable on long-term debt is recorded when due in the statement of activities and when paid in governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of these long-term debt and related items.	935
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Changes in the long term portion of compensated absences are reported as expenditures when financial resources are used in the governmental funds; in the statement of activities they are reported as accrued.	8,205
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>638</u>
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Change in Net Assets of Governmental Activities (Statement II)	<u>\$</u>	<u>469,035</u>
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**CHARTER TOWNSHIP OF UNION  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2004**

**STATEMENT VII**

**Business -type Activities - Enterprise Funds**

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 2,436,978	\$ 1,705,117	\$ 4,142,095
Accounts Receivable	332,324	207,805	539,929
Interest Receivable	28,611	13,978	42,589
Special Assessments Receivable	484,191	789,601	1,273,792
Inventories	-	7,545	7,545
Prepaid Items	45,471	18,293	63,764
Total Current Assets	3,327,575	2,742,139	6,069,714
Noncurrent Assets			
Restricted Cash and Cash Equivalents	24,089	50,473	74,562
Deferred Charges	581,058	11,955	593,013
Capital Assets			
Land	258,680	17,100	275,780
Land Improvements	9,927	7,849	17,776
Buildings and Improvements	95,196	33,880	129,076
Construction in Progress	303,003	105,886	408,889
Machinery and Equipment	425,993	324,735	750,728
Sewer and Water Systems	19,044,140	7,547,010	26,591,150
Less Accumulated Depreciation	(4,936,672)	(2,112,709)	(7,049,381)
Total Capital Assets Net of accumulated Depreciation	15,200,267	5,923,751	21,124,018
Total Noncurrent Assets	15,805,414	5,986,179	21,791,593
<b>TOTAL ASSETS</b>	<b>19,132,989</b>	<b>8,728,318</b>	<b>27,861,307</b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	8,138	14,027	22,165
Retainage Payable	12,102	-	12,102
Vested Benefits - Current	9,940	5,556	15,496
Accrued Interest Payable	126,365	26,322	152,687
Long-Term Debt Due within One Year	491,500	148,500	640,000
Total Current Liabilities	648,045	194,405	842,450
Noncurrent Liabilities			
Vested Benefits - Long Term	14,468	7,750	22,218
Long-Term Debt Due in more than One Year	9,416,903	1,528,880	10,945,783
Total Noncurrent Liabilities	9,431,371	1,536,630	10,968,001
<b>TOTAL LIABILITIES</b>	<b>10,079,416</b>	<b>1,731,035</b>	<b>11,810,451</b>
<b>NET ASSETS</b>			
Invested in Capital assets, net of related debt	5,291,864	4,246,371	9,538,235
Restricted for:			
Debt Service	24,089	50,473	74,562
Unrestricted	3,737,620	2,700,439	6,438,059
<b>TOTAL NET ASSETS</b>	<b>\$ 9,053,573</b>	<b>\$ 6,997,283</b>	<b>\$ 16,050,856</b>

The notes to the financial statements are an integral part of this statement.

**CHARTER TOWNSHIP OF UNION  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUE, EXPENSES, AND  
 CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED DECEMBER 31, 2004**

**STATEMENT VIII**

	Business-type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>OPERATING REVENUES</b>			
Charges for Sales and Services	\$ 2,126,995	\$ 984,321	\$ 3,111,316
Other Miscellaneous	1,759	97,456	99,215
<b>TOTAL OPERATING REVENUE</b>	<b>2,128,754</b>	<b>1,081,777</b>	<b>3,210,531</b>
<b>OPERATING EXPENSES</b>			
Personnel Services	313,177	204,428	517,605
Supplies	79,104	18,391	97,495
Contracted Services & Other	352,551	172,074	524,625
Repairs and Maintenance	80,356	54,699	135,055
Depreciation	428,649	178,128	606,777
Other Expenses	-	49,632	49,632
<b>TOTAL OPERATING EXPENSES</b>	<b>1,253,837</b>	<b>677,352</b>	<b>1,931,189</b>
<b>OPERATING INCOME</b>	<b>874,917</b>	<b>404,425</b>	<b>1,279,342</b>
<b>NON-OPERATING REVENUE (EXPENSES)</b>			
Interest Earnings	52,259	64,566	116,825
Gain on Sale of Assets	2,500	2,500	5,000
Debt Service	(547,747)	(111,383)	(659,130)
<b>NET NON-OPERATING REVENUE (EXPENSES)</b>	<b>(492,988)</b>	<b>(44,317)</b>	<b>(537,305)</b>
<b>CHANGE IN NET ASSETS</b>	<b>381,929</b>	<b>360,108</b>	<b>742,037</b>
<b>NET ASSETS- Beginning</b>	<b>8,671,644</b>	<b>6,637,175</b>	<b>15,308,819</b>
<b>NET ASSETS- Ending</b>	<b>\$ 9,053,573</b>	<b>\$ 6,997,283</b>	<b>\$ 16,050,856</b>

The notes to the financial statements are an integral part of this statement.

**CHARTER TOWNSHIP OF UNION  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**STATEMENT IX**

	Business Type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>Cash Flows From Operating Activities</b>			
Receipts from customers and users	\$2,367,652	\$1,187,786	\$3,555,438
Payments to suppliers	(511,854)	(285,789)	(797,643)
Payments to employees	(312,704)	(206,187)	(518,891)
Net cash provided (used) by operating activities	1,543,094	695,810	2,238,904
<b>Cash Flows From Capital and Related Financing Activities</b>			
Purchases of capital assets	(816,211)	(122,612)	(938,823)
Principal paid on capital debt	(434,535)	(149,564)	(584,099)
Interest paid on capital debt	(564,696)	(114,404)	(679,100)
Proceeds from the sale of capital assets	91,361	2,500	93,861
Net cash provided (used) by capital and related financing activities	(1,724,081)	(384,080)	(2,108,161)
<b>Cash Flows From Investing Activities</b>			
Interest received	52,259	64,566	116,825
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(128,728)</b>	<b>376,296</b>	<b>247,568</b>
<b>Cash and cash equivalents, January 1</b>	<b><u>2,589,795</u></b>	<b><u>1,379,294</u></b>	<b><u>3,969,089</u></b>
<b>Cash and cash equivalents, December 31</b>	<b><u>\$2,461,067</u></b>	<b><u>\$1,755,590</u></b>	<b><u>\$4,216,657</u></b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>			
Operating income	\$ 874,917	\$ 404,425	\$ 1,279,342
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	428,649	178,128	606,777
(Increase) decrease in accounts receivable	(28,493)	(12,626)	(41,119)
(Increase) decrease in special assessments receivable	42,245	102,565	144,810
(Increase) decrease in interest receivable	2,967	9,867	12,834
(Increase) decrease in due from other funds	223,307	-	223,307
(Increase) decrease in inventory	-	6,635	6,635
(Increase) decrease in prepaid expenses	(1,128)	(432)	(1,560)
Increase (decrease) in accounts payable	157	9,007	9,164
Increase (decrease) in accrued liabilities	473	(1,759)	(1,286)
<b>Net cash provided (used) by operating activities</b>	<b><u>\$1,543,094</u></b>	<b><u>\$ 695,810</u></b>	<b><u>\$2,238,904</u></b>
<b>Non-cash Investing, Capital , and Financing Activities</b>			
Capital asset disposals	\$ 98,317	\$ 9,456	\$ 107,773
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>			
Current Cash and Cash Equivalents	\$2,436,978	\$1,705,117	\$4,142,095
Restricted Cash and Cash Equivalents	24,089	50,473	74,562
<b>Cash and cash equivalents, December 31</b>	<b><u>\$2,461,067</u></b>	<b><u>\$1,755,590</u></b>	<b><u>\$4,216,657</u></b>

The notes to the financial statements are an integral part of this statement.

**CHARTER TOWNSHIP OF UNION  
FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2004**

**Statement X**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	<b><u>\$ 81,509</u></b>
<b>LIABILITIES</b>	
Undistributed Receipts	\$ 220
Internal Balances	\$ 81,244
Due to or on behalf of Others	<u>45</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 81,509</u></b>

The notes to the financial statements are an integral part of this statement.

**CHARTER TOWNSHIP OF UNION  
COMPONENT UNITS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2004**

**STATEMENT XI**

	East Downtown Development Authority	West Downtown Development Authority	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	\$ 268,010	\$ 550,011	\$ 818,021
Taxes Receivable - Net of Allowance for Uncollectible	694,745	284,554	979,299
Special Assessment Receivable	-	367,149	367,149
Interest Receivable	-	10,644	10,644
Prepaid Expenditures	60,827	26,000	86,827
Total Current Assets	1,023,582	1,238,358	2,261,940
<b>Noncurrent Assets</b>			
Deferred Charges	23,877	55,117	78,994
Capital Assets - Net of Depreciation	-	-	-
Total Noncurrent Assets	23,877	55,117	78,994
<b>TOTAL ASSETS</b>	<b>1,047,459</b>	<b>1,293,475</b>	<b>2,340,934</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	262	-	262
Interest Payable	34,432	(50,136)	(15,704)
Retainage Payable	4,089	-	4,089
Internal Balances	445	75	520
Deferred Revenue	31,484	357,591	389,075
Long-Term Debt Due within One Year	289,196	89,387	378,583
Total Current Liabilities	359,908	396,917	756,825
<b>Noncurrent Liabilities</b>			
Long-Term Debt Due in more than One Year	482,854	924,986	1,407,840
<b>TOTAL LIABILITIES</b>	<b>842,762</b>	<b>1,321,903</b>	<b>2,164,665</b>
<b>NET ASSETS</b>			
Restricted Net Assets for Debt Service	107,106	154,070	261,176
Unrestricted Net Assets	97,591	(182,498)	(84,907)
<b>TOTAL NET ASSETS</b>	<b>\$ 204,697</b>	<b>\$ (28,428)</b>	<b>\$ 176,269</b>

The notes to the financial statements are an integral part of this statement.

**CHARTER TOWNSHIP OF UNION  
COMPONENT UNITS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**STATEMENT XII**

	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			
	Charges for Services		Operating Grants and Contributions		East		West	
	Expenses			Capital Grants and Contributions	Downtown Development Authority		Downtown Development Authority	Total
<b>East Downtown Development Authority</b>								
Operations	\$ 80,452	\$ -	\$ -	\$ -	\$ (80,452)	\$ -	\$ -	\$ (80,452)
Interest and Paying Agent Fees on Long-term Debt	107,413	-	-	-	(107,413)	-	-	(107,413)
<b>West Downtown Development Authority</b>								
Operations	4,453	-	-	-	-	-	(4,453)	(4,453)
Interest and Paying Agent Fees on Long-term Debt	29,167	-	-	-	-	-	(29,167)	(29,167)
Special Assessments	-	39,215	-	-	-	-	39,215	39,215
<b>TOTAL COMPONENT UNITS</b>	<b>221,485</b>	<b>39,215</b>	<b>-</b>	<b>-</b>	<b>(187,865)</b>	<b>5,595</b>	<b>(182,270)</b>	
<b>General Revenues:</b>								
Property Taxes					689,787	297,765	987,552	
Interest Earnings					3,872	35,791	39,663	
<b>Total General Revenues</b>					<b>693,659</b>	<b>333,556</b>	<b>1,027,215</b>	
<b>Transfers</b>								
Total Transfers and General Revenues					(136,782)	(25,000)	(161,782)	
					556,877	308,556	865,433	
<b>Changes in Net Assets</b>					<b>369,012</b>	<b>314,151</b>	<b>683,163</b>	
<b>Net Assets - January 1</b>					<b>(164,315)</b>	<b>(342,579)</b>	<b>(506,894)</b>	
<b>Net Assets - December 31</b>					<b>\$ 204,697</b>	<b>\$ (28,428)</b>	<b>\$ 176,269</b>	

# **CHARTER TOWNSHIP OF UNION**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **DECEMBER 31, 2004**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Charter Township of Union have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

##### **A. Reporting Entity**

The Charter Township of Union is a township with a population in excess of 4,000 people. The Township is governed by a seven-member board of officials, elected by the Township electorate. The board appoints a township superintendent.

**Blended component units.** Certain component units, despite being legally separate from the Township, are so intertwined with the Township's operations that they are, in substance, the same as the Township. The Township has no component units that warrant being included as primary Township operations.

**Discretely presented component units.** The following component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Township. They are the East and West Downtown Development Authorities (DDA).

The Township appoints a voting majority, is able to impose its will, and has incurred specific financial burdens in the form of G.O. Bonds; however, the DDA's are fiscally independent. In accordance with Statement of Michigan Governmental Accounting and Auditing No. 5, the East and West DDA of the Charter Township of Union have been discretely presented. Each DDA Component Unit consists of a Special Revenue Fund and one or more Debt Service Funds. The DDA's do not issue any other formal financial statements except as contained in the Charter Township of Union's Basic Financial Statements.

##### **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on the fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

# CHARTER TOWNSHIP OF UNION

## NOTES TO THE FINANCIAL STATEMENTS

### DECEMBER 31, 2004

#### NOTE 1 – SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (CONTINUED)

##### **B. Government-wide and fund financial statements (continued)**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

##### **C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

The *general fund* is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *fire fund* is a special revenue fund. It accounts for resources used to provide fire services to residents of the Township and the surrounding area.

The *construction code enforcement fund* is a other special revenue fund. It accounts for building and zoning permit and inspection activities.

The Township reports the following major proprietary funds:

The *Sewer Fund* accounts for the activities of collecting and treating waste waters.

The *Water Fund* accounts for the costs of providing water services to Township residents.



# **CHARTER TOWNSHIP OF UNION**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **DECEMBER 31, 2004**

#### **NOTE 1 – SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (CONTINUED)**

##### **C. Measurement focus, basis of accounting, and financial statement presentation (Continued)**

Additionally, the Township reports the following fund types:

The *Agency Fund* accounts for assets held by the Township acting as an agent for individuals and/or other funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Township has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are payments of utility charges between the Township's water and sewer function and various other functions of the Township. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including some special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and the internal service fund are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

##### **D. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **E. Assets, liabilities, and net assets or equity**

**1) Cash, Cash Equivalents and Investments** – The Township has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

# **CHARTER TOWNSHIP OF UNION**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **DECEMBER 31, 2004**

#### **NOTE 1 – SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (CONTINUED)**

##### **E. Assets, liabilities, and net assets or equity (Continued)**

**2) Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Advance between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Personal property taxes receivable is shown net of an allowance for uncollectible. Property taxes are levied as of January 1 on property values assessed as of the prior December 31. The lien on the property occurs when the property taxes are levied (January 1).

**3) Inventories and Prepaid Items** – The Township follows the policy of not recording inventories in governmental funds. The effect of not recording inventories is considered to be immaterial. Inventories of a material amount in the proprietary fund types follow the consumption method and are reported at cost using the first in, first out flow method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4) Restricted Assets** – Certain proceeds of enterprise fund revenue bonds and general obligation bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**5) Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

# CHARTER TOWNSHIP OF UNION

## NOTES TO THE FINANCIAL STATEMENTS

### DECEMBER 31, 2004

#### NOTE 1 – SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (CONTINUED)

##### E. Assets, liabilities, and net assets or equity (Continued)

##### 5) Capital Assets (Continued)

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Land Improvements	10 to 20 years
Buildings	40 to 50 years
Building Improvements	5 to 50 years
Equipment – Heavy	10 to 20 years
Equipment – Light	5 to 10 years
Water Systems	50 years
Waste Water Treatment Plant	50 years
Sewer Systems	40 to 50 years
Trucks	5 to 10 years
Office Equipment	5 to 10 years

**6) Compensated Absences (Vacation and Sick Leave)** – The Township's policy allows employees to accumulated earned but unused vacation pay benefits. The government-wide and proprietary statements accrue all vacation benefits as they are earned. Upon termination of employment, employees will be paid for unused vacation time that has been earned through the last day of employment.

**7) Long-term Obligations** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8) Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

#### NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

##### A. Budgetary Information

Annual budgets are adopted for the general and all special revenue funds. Budgets are adopted on a basis consistent with the basis of accounting utilized by the Township and state law for the general fund. All annual appropriations lapse at fiscal year end.

# CHARTER TOWNSHIP OF UNION

## NOTES TO THE FINANCIAL STATEMENTS

### DECEMBER 31, 2004

#### NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

##### A. Budgetary Information (Continued)

The budget document presents information at the line item level. The legal level of budgetary control adopted by the board (i.e. the level at which expenditures may not legally exceed appropriations) is the function level for the general fund. State law requires the Township to have its budget in place by January 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budgets during the year. The Township amended its budget at various times during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures because the goods or services have not been received as of year-end; the commitments will be reappropriated and honored during the subsequent year.

##### B. Excess of expenditures over appropriations in budgetary funds

P.A. 621 of 1978, Section 18(1), as amended, of the State of Michigan provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2004, the Township incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated as follows:

	Budgeted Expenditures	Actual Expenditures	Excess Expenditures
<b>General Fund:</b>			
General Government	\$ 333,595	\$ 364,097	\$ (30,502)
Public Safety	5,450	8,331	(2,881)
<b>Construction Code Enforcement:</b>			
Public Safety	73,675	79,588	(5,913)

#### NOTE 3 – CASH AND CASH EQUIVALENTS

Deposits are carried at cost. Deposits are in three financial institutions in the name of the Township Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations.

Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; bankers' acceptances of the United States banks; obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company act of 1940, with the authority to purchase only investments by a public corporation; obligation described above if purchased through an inter-local agreement under the urban cooperations act of 1967, PA 7, MCL 124.501 to 124.512; investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118, and the investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The Township's deposits are in accordance with statutory authority.

**CHARTER TOWNSHIP OF UNION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 3 – CASH AND CASH EQUIVALENTS (CONTINUED)**

At year-end, the Township's Deposits were reported in the basic financial statements as follows:

	Cash and Cash Equivalents
Governmental Activities	\$ 1,695,166
Business-type Activities	4,216,657
Fiduciary and Trust and Agency Funds	81,509
Total Primary Government	5,993,332
Component Units	818,021
Total	\$ 6,811,353

At year-end, the carrying value of cash and cash equivalents held by the Charter Township of Union is as follows:

	Primary Government	Fiduciary and Trust and Agency Funds	Component Units	Total Reporting Entity
Petty Cash / Cash on Hand	\$ 400	\$ -	\$ -	\$ 400
Bank Deposits (CD, Checking, Savings)	5,911,423	81,509	818,021	6,810,953
Grand Totals - Cash and Cash Equivalents	<u>\$ 5,911,823</u>	<u>\$ 81,509</u>	<u>\$ 818,021</u>	<u>\$ 6,811,353</u>

At year-end, the carrying amount of the Township's and its component unit's deposits with financial institutions was \$6,811,353 and the bank balance was \$9,836,973. Of the bank balance \$300,000 was covered by federal depository insurance and \$9,536,973 was uninsured and uncollateralized. Of the book balance \$300,000 was covered by federal depository insurance and \$6,511,353 was uninsured and uncollateralized.

Larger amounts of deposits with financial institutions were uninsured and uncollateralized during the year than at year-end due to collections of property taxes being made over short periods of time.

The Township believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates the bank rating of each financial institution it deposits Township funds with. Only institutions with acceptable ratings are used as depositories.

# **CHARTER TOWNSHIP OF UNION** **NOTES TO THE FINANCIAL STATEMENTS** **DECEMBER 31, 2004**

## **NOTE 4 – RECEIVABLES**

Receivables as of year-end for the government's individual major funds and component units, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Fire</u>	<u>Sewer</u>	<u>Water</u>	<u>Component Units</u>	<u>Total</u>
<b>Receivables:</b>						
Interest	\$ -	\$ 14	\$ 28,611	\$ 13,978	\$ 10,644	\$ 53,247
Taxes	152,516	191,298	-	-	1,004,455	\$ 1,348,267
Accounts	190,002	-	332,324	207,605	-	\$ 729,931
Special Assessments	-	-	484,191	789,601	367,149	\$ 1,640,941
Gross Receivables	342,518	191,310	845,126	1,011,184	1,382,248	3,772,386
Less: allowance for Uncollectibles	(2,985)	(15,470)	-	-	(25,156)	(43,611)
<b>Net total receivables</b>	<b>\$ 339,533</b>	<b>\$ 175,840</b>	<b>\$ 845,126</b>	<b>\$ 1,011,184</b>	<b>\$ 1,357,092</b>	<b>\$ 3,728,775</b>

## **NOTE 5 – INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS**

The composition of interfund balances in the fund statements is as follows:

### **Due To/From Primary Government**

<u>Receivable Entity</u>	<u>Payable Entity</u>	
Primary Government – General Fund	Agency Funds	\$ 81,244
	Component Unit – East DDA Operating	312
	Component Unit – West DDA Operating	75
Primary Government – Construction Code Enforcement Fund	Component Unit – East DDA Operating	133
Total		<u>\$ 81,764</u>

### **Interfund Transfers Reported in the Fund Statements**

These transfers were done in the normal course of operations of the funds and the funding of jointly participated in capital projects.

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	
General Fund	Construction Code Enforcement Fund	\$ 62,000

**CHARTER TOWNSHIP OF UNION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 5 – INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS (CONTINUED)**

**Transfers To/From Component Units Reported in the Fund Statements.**

<u>Transferred From</u>	<u>Transferred To</u>	
Primary Government – Fire Fund	Component Unit – East DDA Operating	\$ 55,000
	Component Unit – West DDA Operating	25,000
Component Unit – East DDA Debt Service	Component Unit – East DDA Operating	375,202
Component Unit – West DDA Debt Service	Component Unit – West DDA Operating	<u>140,000</u>
Total		<u>\$ 595,202</u>

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2004 was as follows:

**A. Primary Government**

	<u>Beginning Balance</u>	<u>Acquisitions</u>	<u>Sales &amp; Dispositions</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 160,650	\$ -	\$ -	\$ 160,650
Capital assets being depreciated:				
Land Improvements	130,000	94,257	-	224,257
Buildings & Improvements	691,992	-	-	691,992
Equipment	251,000	-	-	251,000
Vehicles	223,555	-	-	223,555
Office Equipment	71,261	-	-	71,261
Total capital assets being depreciated	<u>1,367,808</u>	<u>94,257</u>	<u>-</u>	<u>1,462,065</u>
Less accumulated depreciation for:				
Land Improvements	91,000	12,052	-	103,052
Buildings & Improvements	177,049	12,901	-	189,950
Equipment	96,090	15,126	-	111,216
Vehicles	67,066	11,178	-	78,244
Office Equipment	45,927	5,927	-	51,854
Total accumulated depreciation	<u>477,132</u>	<u>57,184</u>	<u>-</u>	<u>534,316</u>
Total capital assets, being depreciated, net	<u>890,676</u>	<u>37,073</u>	<u>-</u>	<u>927,749</u>
Governmental activities capital assets, net	<u>\$ 1,051,326</u>	<u>\$ 37,073</u>	<u>\$ -</u>	<u>\$1,088,399</u>

**CHARTER TOWNSHIP OF UNION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 6 – CAPITAL ASSETS (CONTINUED)**

**A. Primary Government (Continued)**

	<u>Beginning Balance</u>	<u>Acquisitions</u>	<u>Sales &amp; Dispositions</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 275,780	\$ -	\$ -	\$ 275,780
Capital assets being depreciated:				
Land improvements	17,776	-	-	17,776
Buildings & Improvements	129,076	-	-	129,076
Equipment	504,906	18,500	-	523,406
Vehicles	220,785	25,450	18,914	227,321
Water System	7,547,010	-	-	7,547,010
Sewer System	10,125,473	637,919	149,079	10,614,313
Waste Water Treatment Plant	8,429,827	-	-	8,429,827
Construction in Progress	151,936	877,481	620,527	408,890
Total capital assets being depreciated	27,126,789	1,559,350	788,520	27,897,619
Less accumulated depreciation for:				
Land improvements	5,776	1,107	-	6,883
Buildings & improvements	15,752	6,280	-	22,032
Equipment	206,834	35,007	-	241,841
Vehicles	136,365	25,742	-	162,107
Water System	1,793,289	150,940	-	1,944,229
Sewer System	3,839,017	219,105	60,219	3,997,903
Waste Water Treatment Plant	505,790	168,596	-	674,386
Construction in Progress	-	-	-	-
Total accumulated Depreciation	6,502,823	606,777	60,219	7,049,381
Total capital assets, being depreciated, net	<u>\$ 20,899,746</u>	<u>\$ 952,573</u>	<u>\$ 728,301</u>	<u>\$ 21,124,018</u>

Depreciation was charged to functions/programs of the primary government as follows:

<b>Governmental activities:</b>	
General Government	\$ 30,658
Parks and Recreation	15,349
Public Safety	11,177
Total depreciation expense-governmental activities	<u>\$ 57,184</u>
<b>Business-type activities:</b>	
Sewer	\$ 428,649
Water	178,128
Total depreciation expense-business-type activities	<u>\$ 606,777</u>



# CHARTER TOWNSHIP OF UNION

## NOTES TO THE FINANCIAL STATEMENTS

### DECEMBER 31, 2004

#### NOTE 7 -- LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Primary Government</b>						
<b>Governmental Activities</b>						
Fire Truck Capital Lease	5.78%	\$15,452 - \$25,600	\$ 114,776	\$ (20,454)	\$ 94,322	\$ 21,635
<b>Business-type Activities</b>						
<u>Revenue Bonds</u>						
1979 FMHA Sewer Bond Amount of Issue \$2,395,000						
Maturing through 2019	5.0%	\$30,000 - \$120,000	1,525,000	(1,525,000)	-	-
1980 FHMA Sewer Bond Amount of Issue \$680,000						
Maturing through 2020	5.0%	\$10,000 - \$35,000	425,000	(425,000)	-	-
1990 Water Supply System and Refinancing Amount of Issue \$1,300,000						
Maturing through 2020	5.27%	\$25,000 - \$105,000	1,025,000	(40,000)	985,000	45,000
1987 Special Assessment Bonds Amount of Issue \$600,000						
Maturing through 2007	6.7% - 9.5%	\$30,000 - \$35,000	125,000	(30,000)	95,000	30,000
1988 Special Assessment Bonds Series I Amount of Issue \$695,000						
Maturing through 2008	7.0% - 9.8%	\$35,000 - \$40,000	185,000	(40,000)	145,000	35,000
1988 Special Assessment Bonds Series II Amount of Issue \$455,000						
Maturing through 2008	7.0% - 10.0%	\$25,000	120,000	(25,000)	95,000	20,000
1993 Water Special Assessment Limited Tax Refunding Bonds Amount of Issue \$915,000						
Maturing through 2016 Less Deferred Discounts	3.0% - 5.7%	\$35,000 - \$45,000	475,000 2847	(40,000) (36)	435,000 2,811	40,000

# CHARTER TOWNSHIP OF UNION

## NOTES TO THE FINANCIAL STATEMENTS

### DECEMBER 31, 2004

#### NOTE 7 – LONG-TERM DEBT (CONTINUED)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Primary Government (Continued)</b>						
<b>Business-type Activities (Continued)</b>						
1999 Wastewater Treatment Plant Project Bonds Amount of Issue \$1,850,000 Maturing through 2006	5.0%	\$275,000 - \$330,000	\$ 960,000 (19,286)	\$ (315,000) 6,429	\$ 645,000 (12,857)	\$ 315,000
Less Deferred Discounts						
2001 Wastewater Treatment Plant Refunding Bonds Amount of Issue \$7,605,000	4.0% - 5.1%	\$40,000 - \$250,000	7,395,000 (58,141)	(45,000) 3,260	7,350,000 (54,881)	50,000
Maturing through 2021						
Less Deferred Discounts						
2004 Sanitary Sewer System Refunding Bonds Amount of Issue \$1,920,000	2.0% - 4.5%	\$105,000 - \$165,000	- (20,576)	1,920,000 1,286	1,920,000 (19,290)	105,000
Maturing through 2019						
Less Deferred Discounts						
<b>Total Business-type Activities</b>			<b>12,139,844</b>	<b>(554,061)</b>	<b>11,585,783</b>	<b>640,000</b>
<b>Total Primary Government</b>			<b>\$ 12,254,620</b>	<b>\$ (574,515)</b>	<b>\$11,680,105</b>	<b>\$ 661,635</b>
<b>Component Units</b>						
<u>General Obligation Bonds</u>						
Hance Storm Drain Improvement Bonds Amount of Issue \$521,956 Maturing through 2004	7.5%	\$34,797	\$ 34,797	\$ (34,797)	\$ -	\$ -
1989 EDDA Series I Amount of Issue \$995,000	6.6% - 9.6%	\$25,000 - \$75,000	300,000 (3,155)	(75,000) 789	225,000 (2,366)	75,000
Maturing through 2007						
Less Deferred Discounts						
1989 EDDA Series II Amount of Issue \$995,000	6.6% - 7.0%	\$25,000 - \$75,000	300,000 (2,932)	(75,000) 733	225,000 (2,199)	75,000
Maturing through 2007						
Less Deferred Discounts						
1990 EDDA Series I Amount of Issue \$790,000	6.0% - 7.2%	\$20,000 - \$65,000	255,000 (2,457)	(60,000) 614	195,000 (1,843)	65,000
Maturing through 2007						
Less Deferred Discounts						
1991 EDDA Series I Amount of Issue \$260,000	6.2% - 8.0%	\$5,000 - \$30,000	120,000 (650)	(30,000) 163	90,000 (487)	30,000
Maturing through 2007						
Less Deferred Discounts						

# CHARTER TOWNSHIP OF UNION

## NOTES TO THE FINANCIAL STATEMENTS

### DECEMBER 31, 2004

#### NOTE 7 – LONG-TERM DEBT (CONTINUED)

Component Units (Continued)	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>1995 EDDA Series I</b>						
Amount of Issue \$249,372						
Maturing through 2006	4.55% - 5.35%	\$10,477 - \$44,196	\$ 91,199	\$ (47,003)	\$ 44,196	\$ 44,195
Less Deferred Discounts			(500)	250	(250)	
<b>1991 WDDA Series II</b>						
Amount of Issue \$949,982						
Maturing through 2018	6.0% - 8.25%	\$5,000 - \$65,000	624,982	(52,309)	572,672	49,388
Less Deferred Discounts			(14,250)	950	(13,300)	
<b>Revenue Bonds</b>						
1991 Water/Sewer Special Assessment Bond						
Amount of Issue \$905,000						
Maturing through 2018	6.3% - 7.25%	\$35,000 - \$40,000	490,000	(35,000)	455,000	40,000
<b>Total Component Units</b>			<u>\$ 2,192,034</u>	<u>\$ (405,610)</u>	<u>\$ 1,786,423</u>	<u>\$ 378,583</u>

#### Debt Service Requirements

Annual debt service requirements to maturity for the above obligations is as follows:

#### Primary Government:

Year Ended December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 21,635	\$ 5,442	\$ 640,000	\$535,872
2006	22,883	4,194	660,000	533,541
2007	24,204	2,874	680,000	499,727
2008	25,600	1,477	660,000	468,438
2009	-	-	615,000	439,702
2010-2014	-	-	3,480,000	1,738,624
2015-2019	-	-	4,045,000	739,413
2020-2024	-	-	890,000	57,500
<b>Total</b>	<u>\$ 94,322</u>	<u>\$ 13,986</u>	<u>\$ 11,670,000</u>	<u>\$5,012,817</u>

#### Component Units:

Year Ended December 31,	Principal	Interest
2005	\$378,583	\$207,968
2006	334,388	168,072
2007	328,699	158,759
2008	87,073	150,504
2009	84,807	154,980
2010-2014	385,542	914,181
2015-2019	207,776	903,196
<b>Total</b>	<u>\$ 1,806,868</u>	<u>\$ 2,657,660</u>

# **CHARTER TOWNSHIP OF UNION** **NOTES TO THE FINANCIAL STATEMENTS** **DECEMBER 31, 2004**

## **NOTE 7 – LONG-TERM DEBT (CONTINUED)**

### **Advance Refundings**

On May 13, 2004 the Township issued \$1,920,000 of Revenue Sharing Bonds with an average interest rate of 3.25% for the purpose of refunding \$1,525,000 of the Township's 1979 FMHA Sewer Bond which is due and payable for the years 2004 through 2019 and \$425,000 of the Township's 1980 FHMA Sewer Bond which is due and payable for the years 2004 through 2020, and to pay the costs of issuance of the bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the business-type activities column of the statement of net assets. This advance refunding resulted in a reduction of \$215,270 in future debt service payments.

## **NOTE 8 – DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Prepaid Fire Protection	\$ -	\$ 84,828

## **NOTE 9 – RISK MANAGEMENT**

The Charter Township of Union is a member of a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. The purpose of the association is to administer a risk management fund, which protects members with loss protections for general and auto liability, motor vehicle physical damage and property. Contributions are applied to the procurement reinsurance, risk management, underwriting, payment of claims, establishments of loss reserves and other related expenses.

A member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

## **NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS**

The Charter Township of Union participates in a defined contribution pension plan administered by Manufacturers Life Insurance Company. The plan is available for all Township Officials and employees. The Township is required to contribute 7.5 percent of each participant's annual compensation. Employees are required to contribute 2.5 percent of their annual compensation and additional voluntary contributions to the plan in amounts ranging from 1 to 10 percent of their annual compensation may be made. Contributions are made by employees on an after-tax basis. Upon early retirement or termination of service, other than because of death, disability or normal retirement, benefits in the plan vest immediately at 100%.

For the year ended December 31, 2004 the Township and its employees made required contributions of \$43,550 and \$14,250 respectively. The value of the plan's assets and vested benefits as of December 31, 2004 is \$386,366. These amounts are not available to the general creditors of the Township, therefore, these assets are not reported in the Township's financial statements.

# **CHARTER TOWNSHIP OF UNION**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **DECEMBER 31, 2004**

#### **NOTE 11 – RELATED PARTY TRANSACTIONS**

The Township has entered into various transactions with vendors whose owners or managers are directly related to employees or board members of the Township or its component units. The Township entered into transactions totaling \$626,341 with The Isabella Corporation during the year ended December 31, 2004. The president of the Isabella Corporation is a board member of a component unit of the Township.

The Township also entered into various transactions with the following vendors whose owners or managers are directly related to employee's or board members of the Township or it's component units: Drydock Painting and Pressure; Mt. Pleasant Sandblasting; Alwood Landscaping and Nursery; J.M.S. Leasing; and Pickard Street Car Wash. The total transactions with each of the listed vendors ranged between \$100 and \$4,700.

#### **NOTE 13 – CONTINGENCIES**

Litigation - The Charter Township of Union is subject to various legal proceedings arising in the course of providing public services to Township residents. The Township is presently a defendant in several cases. However, in the opinion of management and legal counsel, the Township is sufficiently covered by its liability insurance in those matters for which a monetary value is involved.

#### **NOTE 14 – ACCOUNTING AND REPORTING CHANGE**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments. The Township has applied the provisions of this statement in the accompanying financial statements (including notes to financial statements). Certain significant changes in the statements include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Township's activities, including infrastructure (roads, bridges, etc).

A change in the fund financial statements to focus on the major funds.

Capital assets in the governmental activities column of the statements of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the Township as well as assets totaling \$1,010,706 that would previously have been reported in the General Fixed Assets Account Group.

The governmental activities column includes capital leases and other long-term obligations totaling \$94,322 previously reported in the General Long-term Debt Account Group.

# **REQUIRED SUPPLEMENTAL INFORMATION**

**CHARTER TOWNSHIP OF UNION  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Exhibit A**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 281,625	\$ 286,805	\$ 311,432	\$ (24,627)
Licenses and Permits	45,010	45,110	41,991	3,119
Intergovernmental Revenue	582,500	593,128	557,728	35,400
Charges for Services	5,300	5,665	5,127	538
Interest and Rentals	10,000	15,270	8,011	7,259
Refunds and Rebates	100	2,076	2,076	-
Other Revenue	200	1,749	1,797	(48)
<b>TOTAL REVENUE</b>	<b>924,735</b>	<b>949,803</b>	<b>928,162</b>	<b>21,641</b>
<b>EXPENDITURES</b>				
Legislative	57,250	57,250	47,594	9,656
General Government	317,695	333,595	364,097	(30,502)
Public Safety	5,450	5,450	8,331	(2,881)
Public Works	36,250	36,250	30,567	5,683
Capital Improvements	659,087	659,087	158,108	500,979
Recreation & Culture	89,800	89,800	59,097	30,703
Other Functions	144,600	144,600	35	144,565
<b>TOTAL EXPENDITURES</b>	<b>1,310,132</b>	<b>1,326,032</b>	<b>667,829</b>	<b>658,203</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>(385,397)</b>	<b>(376,229)</b>	<b>260,333</b>	<b>(636,562)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out				
Construction Code Enforcement	(62,000)	(62,000)	(62,000)	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(447,397)</b>	<b>(438,229)</b>	<b>198,333</b>	<b>(636,562)</b>
<b>Fund Balance - Beginning</b>	<b>1,294,944</b>	<b>1,294,944</b>	<b>1,294,944</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 847,547</b>	<b>\$ 856,715</b>	<b>\$ 1,493,277</b>	<b>\$ (636,562)</b>

**CHARTER TOWNSHIP OF UNION  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - FIRE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Exhibit B**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 361,025	\$ 361,025	\$ 402,385	\$ (41,360)
Interest and Dividends	2,500	2,500	1,779	721
Other Revenue	-	-	96	(96)
<b>TOTAL REVENUE</b>	<b>363,525</b>	<b>363,525</b>	<b>404,260</b>	<b>(40,735)</b>
<b>EXPENDITURES</b>				
Public Safety	382,990	382,990	381,902	1,088
Debt Services	27,078	27,088	27,077	11
<b>TOTAL EXPENDITURES</b>	<b>410,068</b>	<b>410,078</b>	<b>408,979</b>	<b>1,099</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>(46,543)</b>	<b>(46,553)</b>	<b>(4,719)</b>	<b>(41,834)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Component Units				
East DDA	55,000	55,000	55,000	-
West DDA	25,000	25,000	25,000	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>80,000</b>	<b>80,000</b>	<b>80,000</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>33,457</b>	<b>33,447</b>	<b>75,281</b>	<b>(41,834)</b>
<b>Fund Balance - Beginning</b>	<b>456,247</b>	<b>456,247</b>	<b>456,247</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 489,704</b>	<b>\$ 489,694</b>	<b>\$ 531,528</b>	<b>\$ (41,834)</b>



**CHARTER TOWNSHIP OF UNION  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - CONSTRUCTION CODE  
ENFORCEMENT FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Exhibit C**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
<b>REVENUE</b>				
Building Permits	\$ 50,000	\$ 95,000	\$ 110,153	\$ (15,153)
Zoning Permits	20,000	44,500	51,503	(7,003)
<b>TOTAL REVENUE</b>	<b>70,000</b>	<b>139,500</b>	<b>161,656</b>	<b>(22,156)</b>
<b>EXPENDITURES</b>				
Public Safety	66,350	73,675	79,588	(5,913)
Planning and Zoning	54,620	55,720	20,042	35,678
Other Functions	16,425	16,425	-	16,425
<b>TOTAL EXPENDITURES</b>	<b>137,395</b>	<b>145,820</b>	<b>99,630</b>	<b>46,190</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>(67,395)</b>	<b>(6,320)</b>	<b>62,026</b>	<b>(68,346)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In				
General Fund	62,000	62,000	62,000	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(5,395)</b>	<b>55,680</b>	<b>124,026</b>	<b>(68,346)</b>
<b>Fund Balance - Beginning</b>	<b>67,892</b>	<b>67,892</b>	<b>67,892</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 62,497</b>	<b>\$ 123,572</b>	<b>\$ 191,918</b>	<b>\$ (68,346)</b>

# **OTHER FINANCIAL AND SUPPLEMENTAL INFORMATION**

**CHARTER TOWNSHIP OF UNION  
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
COMPARATIVE SCHEDULES BY SOURCE  
DECEMBER 31, 2004 and 2003**

**EXHIBIT D**

	<u>2004</u>	<u>2003</u>
<b>Governmental funds capital assets:</b>		
Land	\$ 160,650	\$ 160,650
Land Improvements	224,257	130,000
Buildings & Improvements	691,992	691,992
Equipment & Vehicles	474,555	474,555
Office Equipment	71,261	71,261
<b>Total governmental funds capital assets</b>	<b><u>\$ 1,622,715</u></b>	<b><u>\$ 1,528,458</u></b>
<b>Investments in governmental funds capital assets by source:</b>		
General Fund	\$ 1,399,160	\$ 1,304,903
Special Revenue Funds	223,555	223,555
<b>Total governmental funds capital assets</b>	<b><u>\$ 1,622,715</u></b>	<b><u>\$ 1,528,458</u></b>

**CHARTER TOWNSHIP OF UNION  
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
SCHEDULE BY FUNCTION AND ACTIVITY  
DECEMBER 31, 2004**

**EXHIBIT E**

	Land	Land Improvements	Buildings & Improvements	Equipment and Vehicles	Office Equipment	Total
<b>General Government:</b>						
Township Board	\$ 160,150	\$ -	\$ 435,592	\$ -	\$ 71,261	\$ 667,003
Building & Grounds	-	94,257	48,000	103,600	-	245,857
<b>Public Safety:</b>						
Fire	-	-	-	223,555	-	223,555
<b>Recreation and Culture:</b>						
Parks	500	130,000	208,400	147,400	-	486,300
	<u>\$ 160,650</u>	<u>\$ 224,257</u>	<u>\$ 691,992</u>	<u>\$ 474,555</u>	<u>\$ 71,261</u>	<u>\$ 1,622,715</u>

**CHARTER TOWNSHIP OF UNION  
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**EXHIBIT F**

	Governmental Funds Capital Assets December 31, 2003	Additions	Deductions	Governmental Funds Capital Assets December 31, 2004
<b>General Government:</b>				
Township Board	\$ 667,003	\$ -	\$ -	\$ 667,003
Building & Grounds	151,600	94,257	-	245,857
	-	-	-	-
<b>Public Safety:</b>				
Fire	223,555	-	-	223,555
<b>Recreation and Culture:</b>				
Parks	486,300	-	-	486,300
	<u>\$ 1,528,458</u>	<u>\$ 94,257</u>	<u>\$ -</u>	<u>\$ 1,622,715</u>

**COMPONENT UNITS - CHARTER TOWNSHIP OF UNION**  
**OTHER SUPPLEMENTAL INFORMATION**  
**COMBINED BALANCE SHEET**  
**DECEMBER 31, 2004**

**EXHIBIT G**

	East Downtown Development Authority	West Downtown Development Authority	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	\$ 268,010	\$ 550,011	\$ 818,021
Special Assessment Receivable	-	367,149	367,149
Interest Receivable	-	10,644	10,644
Prepaid Expenditures	60,827	26,000	86,827
<b>TOTAL ASSETS</b>	<b>328,837</b>	<b>953,804</b>	<b>1,282,641</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	262	-	262
Retainage Payable	4,089	-	4,089
Due to Other Funds	312	75	387
Due to Others	133	-	133
Deferred Revenue	26,232	368,632	394,864
<b>TOTAL LIABILITIES</b>	<b>31,028</b>	<b>368,707</b>	<b>399,735</b>
<b>FUND BALANCE</b>			
Reserve Account	-	154,070	154,070
Unreserved	297,809	431,027	728,836
<b>TOTAL FUND BALANCE</b>	<b>297,809</b>	<b>585,097</b>	<b>882,906</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 328,837</b>	<b>\$ 953,804</b>	<b>\$ 1,282,641</b>

**Reconciliation of fund balance to the statement of net assets:**

Amounts reported for activities in the statement of net assets are different because:

<b>Total Fund Balance of Funds (Above)</b>	<b>\$ 297,809</b>	<b>\$ 585,097</b>	<b>\$ 882,906</b>
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Because the focus of funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets are offset by deferred revenues in the funds and thus are not included in the funds.

694,746	284,554	979,300
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Long-term Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

(806,482)	(964,237)	(1,770,719)
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Charges deferred to future periods in the activities are not reported in the funds.

18,624	66,158	84,782
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**Net Assets of Activities (Statement XI)**

<b>\$ 204,697</b>	<b>\$ (28,428)</b>	<b>\$ 176,269</b>
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**COMPONENT UNITS - CHARTER TOWNSHIP OF UNION  
OTHER SUPPLEMENTAL INFORMATION  
COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**EXHIBIT H**

	East Downtown Development Authority	West Downtown Development Authority	Total
<b>REVENUE</b>			
Taxes	\$ 708,351	\$ 270,192	\$ 978,543
Special Assessments	-	39,215	39,215
Interest and Rents	3,413	35,791	39,204
<b>TOTAL REVENUE</b>	<b>711,764</b>	<b>345,198</b>	<b>1,056,962</b>
<b>EXPENDITURES</b>			
Current Operations	162,233	4,453	166,686
Debt Service			
Principal	321,801	87,310	409,111
Interest and Paying Agent Fees	101,530	122,135	223,665
<b>TOTAL EXPENDITURES</b>	<b>585,564</b>	<b>213,898</b>	<b>799,462</b>
<b>EXCESS REVENUE OVER (UNDER) EXPENDITURES</b>	<b>126,200</b>	<b>131,300</b>	<b>257,500</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer In			
From Other Funds	375,202	140,000	515,202
Transfers Out			
To Other Funds	(375,202)	(140,000)	(515,202)
To Primary Government	(55,000)	(25,000)	(80,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(55,000)</b>	<b>(25,000)</b>	<b>(80,000)</b>
<b>EXCESS REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING</b>	<b>71,200</b>	<b>106,300</b>	<b>177,500</b>
<b>FUND BALANCE (DEFICIT) - Beginning</b>	<b>226,609</b>	<b>478,797</b>	<b>705,406</b>
<b>FUND BALANCE (DEFICIT) - Ending</b>	<b>\$ 297,809</b>	<b>\$ 585,097</b>	<b>\$ 882,906</b>
<b>Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balance of Component Units to the Statement of Activity:</b>			
Amounts reported for activities in the statement of activities are different because:			
Net Change in Fund Balances - Total Funds	\$ 71,200	\$ 106,300	\$ 177,500
Interest payable on long-term debt is recorded when due in the statement of activities and when paid in funds. Also, funds report the effect of issuance costs, premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of these long-term debt and related items.	315,917	180,278	496,195
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(18,105)	27,573	9,468
<b>Change in Net Assets of Activities (Statement XII)</b>	<b>\$ 369,012</b>	<b>\$ 314,151</b>	<b>\$ 683,163</b>

**COMPONENT UNIT - CHARTER TOWNSHIP OF UNION**  
**OTHER SUPPLEMENTAL INFORMATION**  
**EAST DOWNTOWN DEVELOPMENT AUTHORITY**  
**COMBINING BALANCE SHEET**  
**DECEMBER 31, 2004**

**Exhibit I**

	<u>Operating</u>	<u>Debt Service</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	\$ 160,904	\$ 107,106	\$ 268,010
Prepaid Expenditures	<u>60,827</u>	<u>-</u>	<u>60,827</u>
<b>TOTAL ASSETS</b>	<b>221,731</b>	<b>107,106</b>	<b>328,837</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	262	-	262
Retainage Payable	4,089	-	4,089
Due to General Fund	312	-	312
Due to Others	133	-	133
Deferred Revenue	<u>26,232</u>	<u>-</u>	<u>26,232</u>
<b>TOTAL LIABILITIES</b>	<b>31,028</b>	<b>-</b>	<b>31,028</b>
<b>FUND BALANCE</b>			
Unreserved	<u>190,703</u>	<u>107,106</u>	<u>297,809</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 221,731</u></b>	<b><u>\$ 107,106</u></b>	<b><u>\$ 328,837</u></b>



**COMPONENT UNIT - CHARTER TOWNSHIP OF UNION  
OTHER SUPPLEMENTAL INFORMATION  
EAST DOWNTOWN DEVELOPMENT AUTHORITY  
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Exhibit J**

	<u>Operating</u>	<u>Debt Service</u>	<u>Total</u>
<b>REVENUE</b>			
Taxes	\$ 708,351	\$ -	\$ 708,351
Interest and Rents	<u>1,844</u>	<u>1,569</u>	<u>3,413</u>
<b>TOTAL REVENUE</b>	<b>710,195</b>	<b>1,569</b>	<b>711,764</b>
<b>EXPENDITURES</b>			
Current Operations	162,233	-	162,233
Debt Service			
Principal	34,798	287,003	321,801
Interest and Paying Agent Fees	<u>2,749</u>	<u>98,781</u>	<u>101,530</u>
<b>TOTAL EXPENDITURES</b>	<b>199,780</b>	<b>385,784</b>	<b>585,564</b>
<b>EXCESS REVENUE OVER (UNDER) EXPENDITURES</b>	<b>510,415</b>	<b>(384,215)</b>	<b>126,200</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer In			
From Other Funds	-	375,202	375,202
Transfers Out			
To Other Funds	(375,202)	-	(375,202)
To Primary Government	<u>(55,000)</u>	<u>-</u>	<u>(55,000)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>(430,202)</u></b>	<b><u>375,202</u></b>	<b><u>(55,000)</u></b>
<b>EXCESS REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING</b>	<b>80,213</b>	<b>(9,013)</b>	<b>71,200</b>
<b>FUND BALANCE (DEFICIT) - Beginning</b>	<b><u>110,490</u></b>	<b><u>116,119</u></b>	<b><u>226,609</u></b>
<b>FUND BALANCE (DEFICIT) - Ending</b>	<b><u>\$ 190,703</u></b>	<b><u>\$ 107,106</u></b>	<b><u>\$ 297,809</u></b>

**COMPONENT UNIT - CHARTER TOWNSHIP OF UNION  
OTHER SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - EAST DOWNTOWN  
DEVELOPMENT AUTHORITY  
OPERATING FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Exhibit K**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 733,446	\$ 798,201	\$ 708,351	\$ 89,850
Interest	<u>2,000</u>	<u>2,000</u>	<u>1,844</u>	<u>156</u>
<b>TOTAL REVENUE</b>	<b>735,446</b>	<b>800,201</b>	<b>710,195</b>	<b>90,006</b>
<b>EXPENDITURES</b>				
Current Operations	222,950	222,950	162,233	60,717
Debt Service				
Principal	34,798	34,798	34,798	-
Interest and Paying Agent Fees	<u>2,749</u>	<u>2,749</u>	<u>2,749</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<b>260,497</b>	<b>260,497</b>	<b>199,780</b>	<b>60,717</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>474,949</b>	<b>539,704</b>	<b>510,415</b>	<b>29,289</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out				
To Other Funds	(375,202)	(375,202)	(375,202)	
To Primary Government	<u>(55,000)</u>	<u>(55,000)</u>	<u>(55,000)</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(430,202)</b>	<b>(430,202)</b>	<b>(430,202)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>44,747</b>	<b>109,502</b>	<b>80,213</b>	<b>29,289</b>
<b>Fund Balance - Beginning</b>	<b>110,490</b>	<b>110,490</b>	<b>110,490</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 155,237</b>	<b>\$ 219,992</b>	<b>\$ 190,703</b>	<b>\$ 29,289</b>

**COMPONENT UNIT - CHARTER TOWNSHIP OF UNION  
OTHER SUPPLEMENTAL INFORMATION  
WEST DOWNTOWN DEVELOPMENT AUTHORITY  
COMBINING BALANCE SHEET  
DECEMBER 31, 2004**

**Exhibit L**

	<u>Operating Fund</u>	<u>Debt Service</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	\$ 384,573	\$ 165,438	\$ 550,011
Special Assessment Receivable	-	367,149	367,149
Interest Receivable	-	10,644	10,644
Prepaid Expenditures	<u>26,000</u>	<u>-</u>	<u>26,000</u>
<b>TOTAL ASSETS</b>	<b>410,573</b>	<b>543,231</b>	<b>953,804</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Due to Other Funds	75	-	75
Deferred Revenue	<u>12,438</u>	<u>356,194</u>	<u>368,632</u>
<b>TOTAL LIABILITIES</b>	<b>12,513</b>	<b>356,194</b>	<b>368,707</b>
<b>FUND BALANCE</b>			
Reserve Account	-	154,070	154,070
Unreserved	<u>398,060</u>	<u>32,967</u>	<u>431,027</u>
<b>TOTAL FUND BALANCE</b>	<b>398,060</b>	<b>187,037</b>	<b>585,097</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 410,573</b>	<b>\$ 543,231</b>	<b>\$ 953,804</b>

**COMPONENT UNIT - CHARTER TOWNSHIP OF UNION**  
**OTHER SUPPLEMENTAL INFORMATION**  
**WEST DOWNTOWN DEVELOPMENT AUTHORITY**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**Exhibit M**

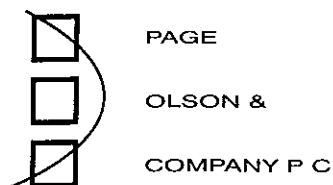
	<u>Operating</u>	<u>Debt Service</u>	<u>Total</u>
<b>REVENUE</b>			
Taxes	\$ 270,192	\$ -	\$ 270,192
Special Assessments	-	39,215	39,215
Interest and Rents	<u>2,767</u>	<u>33,024</u>	<u>35,791</u>
<b>TOTAL REVENUE</b>	<b>272,959</b>	<b>72,239</b>	<b>345,198</b>
<b>EXPENDITURES</b>			
Current Operations	4,453	-	4,453
Debt Service			
Principal	-	87,310	87,310
Interest and Paying Agent Fees	<u>-</u>	<u>122,135</u>	<u>122,135</u>
<b>TOTAL EXPENDITURES</b>	<b>4,453</b>	<b>209,445</b>	<b>213,898</b>
<b>EXCESS REVENUE OVER (UNDER) EXPENDITURES</b>	<b>268,506</b>	<b>(137,206)</b>	<b>131,300</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer In			
From Other Funds	-	140,000	140,000
Transfers Out			
To Other Funds	(140,000)	-	(140,000)
To Primary Government	<u>(25,000)</u>	<u>-</u>	<u>(25,000)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(165,000)</b>	<b>140,000</b>	<b>(25,000)</b>
<b>EXCESS REVENUE AND OTHER FINANCING SOURCES</b> <b>OVER (UNDER) EXPENDITURES AND OTHER FINANCING</b>	<b>103,506</b>	<b>2,794</b>	<b>106,300</b>
<b>FUND BALANCE (DEFICIT) - Beginning</b>	<b><u>294,554</u></b>	<b><u>184,243</u></b>	<b><u>478,797</u></b>
<b>FUND BALANCE (DEFICIT) - Ending</b>	<b><u>\$ 398,060</u></b>	<b><u>\$ 187,037</u></b>	<b><u>\$ 585,097</u></b>

**COMPONENT UNIT - CHARTER TOWNSHIP OF UNION  
OTHER SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - WEST DOWNTOWN  
DEVELOPMENT AUTHORITY  
OPERATING FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Exhibit N**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 271,000	\$ 299,419	\$ 270,192	\$ 29,227
Interest and Rents	<u>2,000</u>	<u>2,400</u>	<u>2,767</u>	<u>(367)</u>
<b>TOTAL REVENUE</b>	<b>273,000</b>	<b>301,819</b>	<b>272,959</b>	<b>28,860</b>
<b>EXPENDITURES</b>				
Current Operations	<u>283,075</u>	<u>283,075</u>	<u>4,453</u>	<u>278,622</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>(10,075)</b>	<b>18,744</b>	<b>268,506</b>	<b>(249,762)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer Out				
To Other Funds	(140,000)	(140,000)	(140,000)	-
To Primary Government	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(165,000)</b>	<b>(165,000)</b>	<b>(165,000)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(175,075)</b>	<b>(6,256)</b>	<b>103,506</b>	<b>(249,762)</b>
<b>Fund Balance - Beginning</b>	<b><u>294,554</u></b>	<b><u>294,554</u></b>	<b><u>294,554</u></b>	<b><u>-</u></b>
<b>Fund Balance - Ending</b>	<b><u>\$ 119,479</u></b>	<b><u>\$ 288,298</u></b>	<b><u>\$ 398,060</u></b>	<b><u>\$ (109,762)</u></b>

# **COMPLIANCE SECTION**



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

April 19, 2005

Township Officials  
Charter Township of Union  
Isabella County, Michigan

We have audited the basic financial statements of Charter Township of Union as of and for the year ended December 31, 2004, and have issued our report thereon dated April 19, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Charter Township of Union's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described as follows:

1. The Township had instances in which actual expenditures exceeded budget amounts as disclosed in Note 2 to the financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Charter Township of Union's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect Charter Township of Union's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as follows:

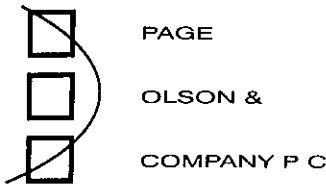
1. The entire accounting system, including the use of the software and the manual processes, has not kept pace with the growth of the Township. Many of the bookkeeping functions, while appropriate for a much smaller entity, are not adequate for the volume and complexity of the accounting transactions and issues facing Union Township nor do they provide effective outputs to facilitate much needed, entity-wide, monitoring to improve internal control. Many of the capabilities of the computerized accounting sub-systems, particularly payroll, we suspect are not being utilized to their fullest potential. The sub systems' with the exception of accounts payable, are not interfacing with the general ledger and the data from those sub-systems, is being manually entered into the general ledger system. Thus creating a significant risk of error, user manipulation or fraud.
2. Proper segregation of duties is not being achieved for payroll processing. The personnel officer approves the timecards, enters the data into the payroll system, prepares the checks, signature stamps the checks, distributes the payroll checks and manually enters the payroll data into the general ledger system. This also creates a significant risk of error, user manipulation or fraud.

A material weakness is a condition in which the design operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Township in a separate letter titled *Audit Communications and Report of Comments and Recommendations* dated April 19, 2005.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Page, Olson & Company*





AUDIT COMMUNICATION AND  
REPORT OF COMMENTS AND RECOMMENDATIONS

April 19, 2005

Township Board  
Charter Township of Union  
Isabella County, Michigan

We have recently completed our audit of the financial statements of the Charter Township of Union for the year ended December 31, 2004. As required by auditing standards generally accepted in the United States of America, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA**

We conducted our audit of the financial statements of the Charter Township of Union in accordance with auditing standards generally accepted in the United States of America. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help to assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the

judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective of an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements. Other information related to the implementation of GASB 34 is discussed further in the other communications section.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit. We have the following to report to you at this time:

The following are the issues noted per the above referenced topics:

The Township elected to do a full implementation of the GASB 34 reporting format. Therefore the Management's Discussion and Analysis, government-wide statements, and budgetary comparison schedules for each major fund have been included in the financial statements. Furthermore, the Township's capital assets and long-term debt are reported in the Statement of Net Assets.

**OTHER COMMUNICATIONS (Continued)**

Audit adjustments have a significant impact on the balance sheet and net income reported on unadjusted financial statements for the year ended December 31, 2004, as follows:

Fund	Beginning Assets	Audited Assets	Increase/ (Decrease)	Beginning Liabilities	Audited Liabilities	Increase/ (Decrease)
General	\$ 1,495,327	\$ 1,500,075	\$ 4,748	\$ 3,964	\$ 6,797	\$ 2,833
Fire	626,196	616,356	(9,840)	84,827	84,827	-
Construction Code	195,912	195,912	-	1,865	3,994	2,129
Sewer	19,666,605	19,186,338	(480,267)	10,015,673	10,166,445	150,772
Water	8,812,909	8,708,405	(104,504)	1,688,947	1,728,222	39,275
EDDA Operating	943,789	221,731	(722,058)	708	31,028	30,320
WDDA Operating	696,459	410,573	(285,886)	75	12,513	12,438
EDDA Debt Service	107,106	107,106	-	-	-	-
WDDA G.O. Debt	46,598	446,598	400,000	-	-	-
WDDA S.A. Debt	475,034	496,633	21,599	373,810	356,194	(17,616)
General Fixed Assets	890,675	931,837	41,162	-	-	-
General Long Term Debt	93,469	78,993	(14,476)	2,406,115	1,871,091	(535,024)
GASB 34	-	979,300	979,300	945,419	2,615	(942,804)

Fund	Beginning Revenue	Audited Revenue	Increase/ (Decrease)	Beginning Expenditures	Audited Expenditures	Increase/ (Decrease)
General	\$ 923,415	\$ 928,162	\$ 4,747	\$ 726,996	\$ 729,829	\$ 2,833
Fire	494,100	484,261	(9,839)	408,979	408,979	-
Construction Code	223,656	223,656	-	97,501	99,630	2,129
Sewer	2,269,875	2,183,514	(86,361)	1,282,292	1,801,585	519,293
Water	1,145,414	1,148,843	3,429	641,527	788,735	147,208
EDDA Operating	1,458,484	710,194	(748,290)	625,893	629,982	4,089
WDDA Operating	571,283	272,960	(298,323)	169,454	169,454	-
EDDA Debt Service	376,771	376,771	-	385,784	385,784	-
WDDA G.O. Debt	140,563	140,563	-	140,756	140,756	-
WDDA S.A. Debt	32,461	71,676	39,215	68,689	68,689	-
General Fixed Assets	-	-	-	-	(41,162)	(41,162)
General Long Term Debt	-	-	-	-	(525,790)	(525,790)
GASB 34	-	(567,096)	(567,096)	-	(577,202)	(577,202)

While some adjusting entries are expected during an audit, the adjustments to the Water and Sewer funds and the DDA Operating funds are significant. The Township needs to continue to emphasize the importance of maintaining accurate books internally on an on-going basis and should not rely upon the audit to correct the year end balances. A listing of the audit adjustments were provided to the Superintendent and the Audit Committee and we pointed out those adjustments that we felt should have been prepared by the Township's staff internally.

**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL  
CONTROLS/COMPLIANCE/ EFFICIENCY**

In planning and performing our audit of the financial statements of the Charter Township of Union, for the year ended December 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

**Reportable Conditions (Material Weaknesses)**

Material reportable conditions are stated in our Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statement Performed in Accordance with Government Auditing Standards in the Compliance Section of the Annual Financial Report on pages 69 - 70.

**Other Conditions**

We have the following matters and observations to report:

**Chart of Accounts**

It was noted that while some changes have been made to conform to the current State Chart of Accounts, the Township's Chart still has significant updates that need to be made. To avoid significant year-end adjustments needed to comply with reporting requirements, we strongly suggest that the Township's entire chart of accounts be restructured to conform to the State of Michigan's Uniform Chart of Accounts.

**General Disbursements**

Disbursements made to Meijer and other similar vendors for food and similar items need to be better documented as to the specific business purpose for which such items are purchased.

**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/  
COMPLIANCE/ EFFICIENCY (Continued)**

**Other Conditions (Continued)**

**Payroll**

Various allocations within payroll transactions must be made to properly record expenditures to the appropriate function. Currently, the Township does not employ a formal documentation process to support the allocations being made. We recommend that at the very least a working spreadsheet be created to complete each pay period. Alternatively, the Township should investigate whether these features are available in the present payroll system in order to document a complete audit trail from the initial allocations to the recording in the general ledger.

It was noted during payroll testing and other inquiries that it is common practice for payroll to be processed immediately following the submission of timecards in order for checks to be disbursed early that same day. While the Township's Administrative Policies and Procedures manual does not prohibit this, the speed in which payroll is currently processed causes the risk for errors and potential disregard of issues that may need additional attention. The Township's procedure manual does allow five business days from the time timecards are submitted to the time checks must be distributed. We recommend that payroll processing be done thoroughly, with caution and that proper approval by an official independent of the disbursement process be made.

It was noted that some vacation accruals are high. While employees are taking some periodic vacations it appears that a great burden would be put on the cash flows of the Township if such employees terminate their employment. Not only do employees accruing significant amounts of vacation present cash flow issues, the lack of vacations presents the opportunity for fraudulent activity.

In addition, it was noted that the cash balance held in the payroll fund is excessive. While the corresponding interfund accounts appear to have been appropriately recognized, there is no reason to maintain such a high amount in this fund. A more appropriate treatment would be an imprest amount of about \$2,000 and to maintain and reconcile the cash account to that amount at all times.

**Fixed Assets**

We continue to have concerns about whether the Township has ensured that fixed assets will be properly recorded going forward. While several attempts have been made to accumulate listings and historical values of all significant assets held by the Township, it appears that no one from the Township has reviewed the listing to make sure all assets are included. It is recommended that the Township review the entire fixed asset listing and develop policies and procedures to ensure that all assets are properly recorded on an on-going basis.

Also, it is recommended that the Township maintain a listing of all easements. While no cash was paid for any easements, it is important for the Township to have a complete listing in order to properly track all easements.

In addition, while marked attempts have been made by the Township to record additions to fixed assets, several adjustments were needed to properly classify the capitalization of assets according to the Township's capitalization policy. We recommend that special care be taken when assets are purchased to ensure that the proper recording of fixed assets is followed.

**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/  
COMPLIANCE/ EFFICIENCY (Continued)**

**Other Conditions (Continued)**

**Minutes**

During our review of the board meeting minutes, it was noted that the budget amendments attached to the minutes do not clearly show the accounts being amended. The State of Michigan has provided specific guidance on the form and content of budget amendments and Page, Olson & Company has presented an informational meeting for Townships at which "Budgeting Basics" information was provided to the Township. We have provided this information once more to assist the Township in assuring that the documentation process provides proper information to the public as well as the Township for subsequent reference.

Also noted during our review were several events that were not noted in the board meeting minutes. It is important that the Township take special care in recording and documenting the motions, approvals, activities and discussions that take place during board meetings.

**Cash**

Various issues arose during the testing of cash transactions and accounts. The following lists our suggestions to improve the documentation and/or operating efficiency of the Township's cash accounts:

- Various accounts are held with financial institutions in which the statement dates are not at the end of the month. For general ledger reconciliation purposes the Township may want to consider requesting that the financial institution change the statement dates to the end of each month.
- It would improve the documentation of bank reconciliations to include the series of checks used each month and to account for and record any voided checks during the period.
- Documentation would also be improved if each bank reconciliation included the account name, the financial institution at which the account is held and the account number.
- The Township maintains numerous cash and investment accounts with one financial institution. While certain separate physical bank accounts must be maintained, others may be combined into one bank account while maintaining proper fund recognition. This is called a "pooled cash" concept and is employed by most larger units of government. Given the volume of transactions and the number of separate accounts the Township holds, we believe it would be in the best interest of the Township to consider this option.

**Electronic Banking**

Public Act 738 of 2002 authorized townships to make electronic transactions involving public funds upon their adoption of a resolution to authorize such transactions. While the Township has adopted a resolution for Internet banking, the Township should consider the State of Michigan's sample policies and resolutions to update the Township's policy to include the appropriate language.

**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/  
COMPLIANCE/ EFFICIENCY (Continued)**

**Other Conditions (Continued)**

**Network Administration**

Upon the resignation of the employee with all network administration responsibilities, it appears that a replacement has not been assigned to these duties. Proper, ongoing maintenance and monitoring of sufficient backup procedures, security issues, and virus protection is very important.

We also noted that a few of the computers on the network have the software called PC Anywhere that allows access to the network via the Internet through an outside computer. We are unsure of the security issues related to this software, but do believe that this product is not completely protected. This issue should be investigated by an individual with expertise in that area so that the accounting data of the Township remains secure.

**Conformance to Internal Policies (Repeated Comment)**

In reviewing various written policies of the Township, we noted many instances that policies are not being followed or it is not clear that they are followed. This suggests that the policies are being circumvented or are perhaps out of date. A specific list of example policies that we found to not be followed was provided to the Audit Committee for further investigation and scrutiny. We recommend that adherence to the policies be maintained, or if out dated, that the policies be modified to reflect the current practice or policy.

**General Attitude and Communication**

During interviews and inquiries of board members, management and employees, various concerns were noted about the lack of communication between board members, staff supervisors, and employees. The Township's business practices, ethical standards, basis for decisions, responsibilities and expectations should be consistently communicated to all levels of personnel.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of the these matters does not affect our report on the Township's financial statements, dated April 19, 2005.

**SUMMARY**

We would like to thank the Charter Township of Union personnel and officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

This communication is intended for the information of the members of the Township Board, management, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

The above comments were discussed in more detail with the Audit Committee. Additionally, other various matters were discussed as well that may result in recommendations of improvement from that committee.

*Page, Olson & Company*